National Association of Wheat Growers

Testimony of Mike Noonan
National Association of Wheat Growers' Board of Directors
President of Oregon Wheat Growers League
before
the House Committee on Small Business
"Family Farmer and Rural Small Business Priorities for the 2007 Farm Bill"
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Mr. Chairman and members of the Committee, my name is Mike Noonan. I am a wheat grower from Klamath Falls, Ore., and serve on the National Association of Wheat Growers Board of Directors and as president of Oregon Wheat Growers League. Thank you for the opportunity to be here today to discuss the 2007 Farm Bill and how it impacts our nation's rural communities.

As you are aware, the policies enacted as part of the 2007 Farm Bill will not only affect the wheat industry, but inevitably will trickle down affecting the development of our nation's rural economies. Farm programs provide for an abundance of food and fiber products that replenish the American people in safe and affordable ways. Our country also relies on these programs to pave the path of biofuel technology, conserve our environment and strengthen state land values. Agriculture, an industry that contributes to about 20 percent to our country's gross domestic product, ensures the creation and sustainment of healthy rural economies.

Being a representative of and advocate for the National Association of Wheat Growers, the 2007 Farm Bill directly pertains to my operation and those of the other growers I represent. NAWG members are ready to work with Congress and the Administration to produce legislation that serves all producers and all Americans.

The Food Security and Rural Investment Act of 2002, as farm legislation has strong points, and the membership of the National Association of Wheat Growers believes that the next Farm Bill should build on these strengths. But, while wheat growers generally support current policy, much of the "safety net" provided by the 2002 bill has not been effective for wheat farmers. The 2007 Farm Bill needs to correct these imbalances.

The 2007 Farm Bill is also a chance to ensure conservation programs are appropriately funded, to create incentive programs and provisions for the development of a renewable fuel sector and to provide for a wide variety of other important measures to wheat growers. Since my time here today is limited, I have attached NAWG's full recommendations to my written testimony for your review and consideration.

I often compare a healthy rural economy to a gear. There are many teeth needed to support one another in order to work together. Communities internally develop interlocking support that allows their visions to become reality. Industries in rural communities tend to prosper when they work together, do business together and support one another. Since a majority of citizens in rural areas work in the agriculture industry, when a producers' returns are not profitable, neither are the businesses in their communities. Purchases of farm inputs and equipment, as well as the consumer spending from farm households, fall when an adequate safety net is not in place, resulting in declining sales for rural businesses and financial institutions that may not receive sufficient mortgage or loan payments.

As you know, farmers, unlike most other businessmen and women, cannot pass on higher input prices or fuel surcharges. Farmers are "price takers," not "price makers"; farmers don't get to set the price they receive for their product. They also are responsible for increased transportation costs to and from the farm. These increases seriously effect family farms leading to loss of operating credit and profitability and, ultimately, the loss of farm infrastructure in rural America.

Agriculture is increasingly providing Americans the opportunity to get their fuel from the Midwest rather than the Mideast. The federal government can help make this goal a reality in a variety of ways but, for the infant cellulosic biofuels market to grow to maturity, it is essential for growers to stay on the land. Cellulosic ethanol and other renewable fuels that could revolutionize our energy economy cannot be commercialized if farmers are not on the ground to produce the necessary crops.

The Farm Bill will not only affect the prosperity of rural businesses, and the possibilities of fuel production in the United States, but will also impact our environment. Farmers are, by nature, conservationists, and wheat growers as a group have seen every possible natural disaster over the term of the 2002 Farm Bill. Rural areas need to be provided adequate funds and equipment to be maintained. Without these resources a healthy rural economy will not be sustained. Not only do farmers need clean water, productive land, and vegetation but so does the whole society. Community habitats, recreation and tourism need these resources in order to be considered desirable.

Finally, the 2007 Farm Bill correlates with the land values in our rural economies. Since the 1930s, government farm program payments have boosted the land value in 39 states. In 2005, Kansas State University conducted a study researching statewide land value and what percentage of that value comes from agriculture alone. In North Dakota, 80 percent of the land value is from agriculture; in Oregon, 68 percent; in Kansas, 67 percent and in Texas, 33 percent.

To break these numbers down more, Kansas State University also found the percentage of value the cropland percentage received from government payments. For instance, in North Dakota 54 percent of the cropland value was due to government payments; in Oregon, 23 percent; in Kansas 33 percent and in Texas, 100 percent. These statistics show that Texas crop land had no worth in 2005 without farm payments. Since real estate is rural America's most important asset, strong land values are often viewed as an indicator of a healthy rural economy. Without government assistance, many rural communities will struggle to sustain their farm operation. [1]

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[1] Kastens, T. & Dhuyvetter, K.; Government Program Payments and Non-agricultural Returns Affect Land Values, September 2005.

To help you comprehend the immense impact the wheat industry alone has on the economy in certain states, a recent study reported that between the years 2003 and 2006, the average yearly total impact of wheat production in your state Colorado, Congresswoman Musgrave was $301 million; in Indiana, Congressman Ellsworth, $130 million; in Oklahoma, Congresswoman Fallin, $795 million; and in Texas, Congressman Gohmert and Congressman Gonzalez, $658 million. During 2003 to 2006, among these four states, yearly averages of 30,000 people were employed in the wheat industry. During these four years, the wheat industry provided 206,000 jobs across the United States.[2]

Conclusion

Agriculture and our economy go hand and hand. Since the United States was formed, farming has been an important industry to our nation, now responsible for about 20 percent of this country's GDP and providing more than 22 million jobs.[3] Our rural economies can only continue to thrive and move forward in business, technology and infrastructure if the agriculture industry is also flourishing.

President Franklin D. Roosevelt nobly stated, "Prosperous farmers mean more employment, more prosperity for the workers and the business men of ... every industrial area in the whole country." Your leadership in the Small Business Committee must start with the producers of America to ensure the 2007 Farm Bill sufficiently meets the needs of the agriculture industry so that rural economies may prosper.

Thank you again for the opportunity to be here today. I hope you have the opportunity to review the attached 2007 NAWG Farm Bill proposal. I am ready to answer any questions you may have.

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[2] Richardson, J. W., Outlaw, J. L., Raulston, J. M., *Impact of the Wheat Industry on the U.S. Economy,* Agricultural and Food Policy Center, Department of Agricultural Economics at Texas A&M University, December 12, 2006.

[3] Agricultural Council of America; http://www.agday.org/media/agday_media_kit.php

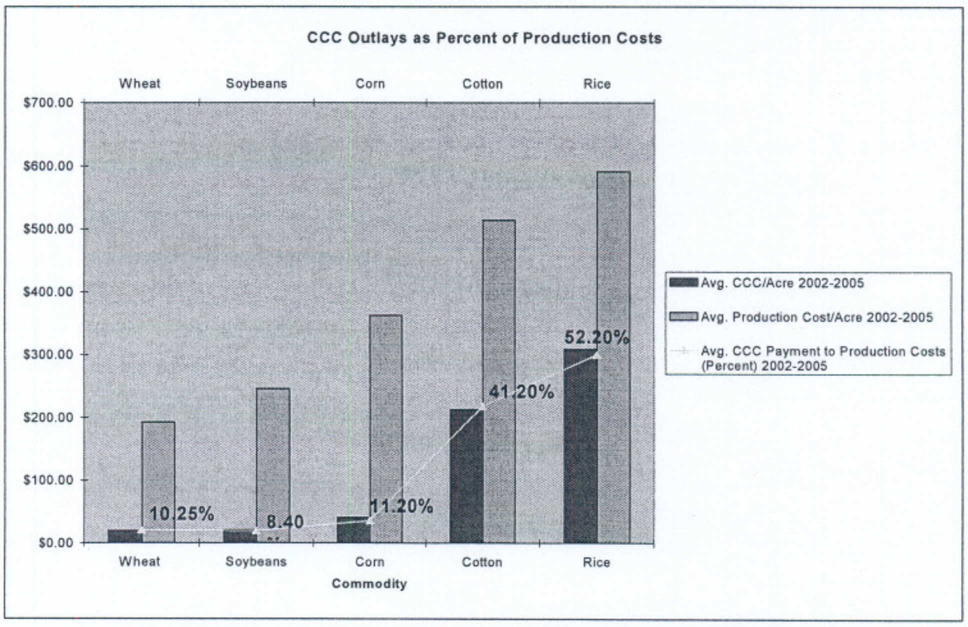
NAWG Farm Bill Proposal

Commodity Programs

The members of the National Association of Wheat Growers realize that the U.S. wheat industry is suffering from both lower net returns and lower levels of support than other program crops, as well as a lack of access to advanced genetic technologies and stagnant demand. These challenges led to an industry-wide Wheat Summit in September 2006 that began with the goal of collaboration on issues ranging from domestic farm policy priorities and science and research to domestic utilization and exports.

One of the most important elements of any plan to restore the wheat industry's competitiveness is federal farm policy that provides an equitable safety net for growers while allowing them to take production cues from the marketplace and while avoiding challenges based on our World Trade Organization obligations. Since 2002, wheat growers have received little or no benefit from two key commodity components of the Farm Bill, the counter cyclical program and loan deficiency payment program. Severe weather conditions for several consecutive years in many wheat states have led to significantly lower yields or total failure, and the loan program and the LDP are useless when you have no crop. The target price for the counter cyclical program for wheat was also set considerably lower than market conditions indicated, which, combined with short crops due to disaster and, thus, higher prices, has led to very little support for wheat in the form of counter cyclical payments. This safety net failure has hurt many wheat growers and has led to a continued decrease in wheat acres.

The chart below clearly shows the inequities in the government-provided safety net to wheat growers over the term of the 2002 Farm Bill. While NAWG members understand the needs of producers of other crops and do not believe that their safety nets should be decreased, it is important for wheat growers to be in an equitable position relative to other program crops.



Source for CCC outlays: http://www.ers.usda.gov/publications/agoutlook/aotables/2006/03Mar/aotab35.xls
Sources for production costs/acre: http://www.ers.usda.gov/Data/CostsandReturns/testpick.htm

We, therefore, recommend to the Committee that the direct payment for wheat be increased to $1.19 per bushel and that the target price be increased to $5.29 per bushel, while maintaining the marketing loan program as currently structured.

While we are aware that other agriculture organizations have expressed concern about the effects that the direct payment may have on rental rates, we believe that the direct payment does not cause any greater increase in rental rates or land values than any other income. For instance, the *Wall Street Journal* reported on March 7 of this year that, "Farmland prices are soaring across the Midwest amid a surge in demand for corn driven by the ethanol boom." We believe that higher crop prices and more demand for corn acres are the real causes of increases in land values and rental rates – not the direct payment.

The decision of the NAWG Board of Directors to support the above proposal came about as a result of reviewing data on trends in the wheat industry including historical prices, historical cost of production and historical yields as determined by USDA's National Agricultural Statistics Service and USDA's Economic Research Service. NAWG's Domestic Policy Committee also obtained data from the Food and Agricultural Policy Research Institute and the Agricultural and Food Policy Center that helped determine what it would take to keep wheat growers on the farm. (These reports are available through NAWG or on the NAWG Web site, www.wheatworld.org.)

According to USDA data, historical input costs for 2005 and 2006 – the most representative of forecast production costs over the term of the next Farm Bill - averaged $215.79 per acre.[1] The average yield, on the other hand, has stayed around 38 to 42 bushels.[2] Using these numbers, the average cost to produce a bushel of wheat is around $5.29 while the average market price over the term of the 2002 Farm Bill has been approximately $3.40 (2003-2005).[3]

While most wheat growers purchase crop insurance and rely on it heavily, affordable coverage is typically limited to 65 to 70 percent of expected yield. Wheat growers expressed concern, therefore, about ensuring that a safety net exists for the other 30 to 35 percent of the crop. By providing a safety net to wheat growers of $1.19 per bushel in the form of a direct payment, federal farm policy can assure growers, their families and their bankers that they have a predictable and dependable safety net.

This proposal also took into consideration our current World Trade Organization obligations. This proposal is based on historical information and, in part, relies on a direct payment that is decoupled from current production.

The benefits of this proposal echo Secretary of Agriculture Mike Johanns' view of Farm Bill priorities, as stated publicly many times and specifically in an interview on Aug. 2, 2006: "…but it seems to me we should be talking about, how do we make our farm program predictable and beyond challenge and equitable for that matter?"

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[1] *Cost-of-production forecasts for U.S. major field crops, 2005-2006f*, Economic Research Service.
[2] *U.S. & All States Data – Wheat All, 1995-2006*, USDA-NASS Quick Stats, National Agricultural Statistics Service, USDA.
[3] *U.S. & All States Data – Wheat All, 2002-2006*, USDA-NASS Quick Stats, National Agricultural Statistics Service, USDA.

NAWG members also support an increase in payment limits commensurate with the increase in the direct payment. While we understand this has been a very heated issue in the past, we believe that we cannot use any types of means testing in the farm bill, especially since payment limit proposals in the past have always targeted the direct payment more than the counter cyclical or loan payments. This is unfair to wheat producers, who rely most on the direct payment.

In addition to these changes in the Farm Bill's Title I:

- NAWG opposes any type of means testing to establish eligibility for or restrict participation in federal farm programs.
- NAWG supports the continuation of the three entity provisions of the 1996 FAIR Act and separate identity rights for spouses actively engaged in farming.
- NAWG supports creating a separate market classification for Hard White Wheat.

CONSERVATION

NAWG believes that all components of Title II are important and that full and adequate funding for conservation programs should not come at the expense of full and adequate funding for commodity programs; the conservation title should not replace the commodity title. NAWG further believes that participation in a conservation program does not create a new right of public use and fully protects all otherwise applicable private property rights.

NAWG makes the following recommendations for Title II:

Conservation Reserve Program (CRP)

- CRP should be continued and renewed.
- CRP should be limited to the most highly erodible soils.
- CRP payments should reflect local rental rates.
- Any wheat base acreage enrolled in CRP should be restored, but not updated, upon the expiration of the contract.
- CRP acreage should be capped at 39.2 million acres.

Conservation Security Program (CSP)

- CSP should be fully funded and returned to its original purpose.
- If CSP is not fully funded, the "priority watershed" concept should be implemented.
- Choice of crop protection products should not qualify or disqualify producers from participating in CSP.

Administration

- NAWG does not support consolidating the conservation programs administered under the Department of Agriculture. However, NAWG believes that duplication and competing administrative functions should be removed to provide a streamlined sign-up process for these conservation programs.

Other

- NAWG also opposes the proposed sod saver provision from the Administration that would make grassland (rangeland and native grasslands, not previously in crop production) acres that are converted into crop production permanently ineligible for farm price, income support and other USDA program benefits.

TRADE AND FOOD AID

NAWG supports fair and open trade of wheat throughout the world. Nearly half of U.S. wheat is exported and, since 95 percent of the world's population lives outside of the United States, wheat growers recognize that expanded markets will likely be overseas. In addition, wheat growers continue to support food aid programs. However, our requests for Title III cannot come at the expense of the commodity or conservation titles.

To facilitate trade, the wheat industry:

- supports funding of the Market Access Promotion (MAP) program at no less than $300 million annually.
- supports the use of funding allocated to the Export Enhancement Program (EEP) to enhance U.S. wheat exports and market development programs until all export subsidies have been eliminated.
- supports increased funding for CCC export credit programs.
- supports funding of the Foreign Market Development (FMD) program at no less than $55 million annually.
- supports continued legislative authorization of the cooperator program as a line item in the CCC budget.
- supports producer oversight of the allocation of cooperator program funds.

In the area of food aid, the wheat industry:

- opposes any attempt in the World Trade Organization (WTO), or in any other venues, to require that food aid be given as "cash only" instead of allowing donor nations to provide food directly as emergency and development assistance.
- supports funding food aid programs at levels no less than the amounts needed to provide food donation levels of at least 6 million metric tons annually, of which 3 million metric tons should be wheat.
- supports the original intent of the Bill Emerson Humanitarian Trust, that it provide direct food aid and should not be sold back into the U.S. domestic market. The wheat industry also supports the Emerson Trust being replenished in a timely manner.
- believes that current programs administered by the U.S. Department of Agriculture are effective and should remain under USDA management.
- believes that, except in times of emergency, U.S. food aid programs should be comprised of U.S.-produced food.
- opposes withholding of food aid for political purposes.

CREDIT

NAWG supports financing programs for beginning farmers. In addition, NAWG supports the continuation of and increased funding for the FSA guaranteed loan program. NAWG supports full funding for the FSA reduced interest loan program.

Rural Development

NAWG is supportive of rural development programs but strongly opposes the diversion of money from other areas of the Farm Bill for these efforts.

Research

NAWG supports funding for the mapping of the wheat genome and international triticae mapping initiatives. NAWG also supports funding for research into fusarium head blight and other wheat-related diseases and pests, as well as for other research initiatives that would benefit wheat growers.

Energy

NAWG supports utilizing Conservation Reserve Program (CRP) acreage, or land to be enrolled in CRP, for the purpose of planting and harvesting dedicated energy crops including, but not limited to, switchgrass. This should be carried out in a manner that maintains the environmental benefits that CRP is designed to achieve.

NAWG also supports the Commodity Credit Corporation offsetting 40 percent of the cost of cellulosic feedstock for the first year of a cellulosic ethanol refinery's life. A similar program intended for other types of biofuel, the CCC Bioenergy Program, expired in 2006, and should be reauthorized to support cellulosic ethanol feedstocks, including dedicated energy crops or agricultural/forestry residues. The program could be simplified to provide a per gallon payment rate, consider a payment limit per eligible entity and be terminated as cellulosic ethanol becomes commercially feasible.

NAWG is highly supportive of programs to encourage the development of a viable renewable energy sector, but strongly opposes the diversion of money from other areas of the Farm Bill for these efforts.

Other Priorities

NAWG supports creating a Hard White Wheat development project that would focus on achieving critical mass. U.S. Wheat Associates' HWW Committee will draft a plan that includes a research component and an infrastructure development component. A draft concept paper is available at http://www.wheatworld.org/pdf/Draft%20HWWDP%20(2).doc and will be updated as necessary.

NAWG believes that a nationally-uniform regulatory structure for biotechnology regulation is essential to successfully utilizing this technology. Accordingly, we propose amendments to the Grain Standards Act that would ensure a uniform, national regulatory structure.

NAWG supports federal pre-emption of state labeling requirements for biotech products to ensure that labeling is voluntary, consistent with U.S. law, consistent with international trade agreements, truthful and not misleading.

NOTES

Both the NAWG Domestic Policy Committee and the NAWG Board of Directors began examining several farm bill proposals and options as early at April 2005 to ensure that the organization's recommendations to Congress would provide the best possible safety net for wheat growers.

Proposals that the NAWG Committee and Board examined included several revenue assurance-type programs, including options outlined by the American Soybean Association, the National Corn Growers Association, a NAWG Domestic Policy Committee proposal, and most recently, program recommendations from the U.S. Department of Agriculture.

While these programs continue to sound good in theory, after much analysis, we have determined that these programs just won't work for wheat growers. Most are based on a 70 percent cap, and/or either a three-year average or five-year Olympic average income that is used to determine a producer's "target" revenue.

Wheat is grown mostly in areas of variable production that have experienced recent years of drought and other natural disasters, which brings a producer's potential target revenue much lower than it should be. That, combined with the possibility of only being able to cover 70 percent of revenue makes these programs a no-win situation for wheat growers. The recent proposal by the USDA uses the current (2002 Farm Bill) target price as the basis for figuring a target revenue. Wheat growers have continued to state that the current target price is far below what market conditions indicated was necessary for a reliable safety net, so a new target revenue based on the same number is completely inadequate. A quick analysis of the current year situation shows that once again, wheat growers would not receive any safety net from the Department's proposal.